EXECUTIVE SECRETARIAT
Routing Slip

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TO:

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2	DDCI		X (w/o att)		
3	EXDIR				
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9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA		X (w/att)		
18	AO/DCI				
19	C/IPD/OIS				
20	NIO/ECON	X (w/att)			
21	ES		X (w/o att)		
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SUSPENSE ______________ Date

Remarks:

25X1

D/Executive Secretary
17 January 1983
Date

3637 (10-81)

Executive Registry
83-0254/1

15 January 1983

ILLEGIB

MEMORANDUM FOR: National Intelligence Officer for Economics

FROM: Director of Central Intelligence

SUBJECT: World Trading System

1. Thinking about our discussion of late this week, particularly your mention that [redacted] is working on a paper on protectionism, resulted in the concept for an intelligence product which I'd like you to pursue. Also contributing to that concept were Secretary Shultz' remarks at the NSC meeting on the Nakasone visit. He stated one of the objectives of the discussion emphasizing that Japan has a big stake in maintaining the world trading system and that it is reluctant to carry its share of responsibility for meeting the pressures which now threaten that system. 25X1

2. We should take a broad look at the threats to that system, i.e., the burden of debt, protectionist developments, austerity imposed by IMF and the economic downturn, lower oil prices as they impinge on the financial stability of the Mexicos, the Nigerias, the Egypts, and indirectly by reducing the capability of the rich oil countries to extend aid on Pakistan, Morocco, and Sudan in financial stability terms and on Iraq in military security terms. The oil price impact is indicated briefly in this paper I had John McMahon do to cover the larger DDI paper on the impact of lower oil prices.

3. What are the responsibilities of the strong countries to help to carry the weaker ones during the transition, i.e., resist protectionism, open markets, provide economic assistance, fund the IMF, lead in getting debts rescheduled, etc. The OGI is contracting out a paper on the world financial system structure and fragility. The concepts in that should help sketch out the paper on the pressures of the world trading system today and how the rich countries can discharge their need and responsibilities to keep it going. To what extent can the ability of the larger countries to contribute to this process be quantified even in broad general terms?

4. What I would like you to do is give me a couple of pages on this which I might use in my worldwide briefing and then develop a concept for a more extended and broader treatment of the subject which might be circulated. For the contribution to the worldwide briefing, you might have something of a start in these pages which were provided to me earlier for the purpose of the worldwide briefing. I would like to broaden it to include the other elements indicated in this memorandum and in the attached paper on the impact of reduced oil prices.

William J. Casey

Attachments

[redacted] 25X1

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SECRET

International Finance

A crisis of confidence in international lending is curtailing the flow of capital to less developed countries (LDCs). At a minimum many LDCs will have to make strenuous economic adjustments. At worst these required adjustments may be so severe as to disrupt economic activity and spur a political backlash against Western governments and financial institutions.

For the first time, most of the handful of LDCs that account for the bulk of the group's borrowing from foreign banks either cannot or are in the immiment danger of being unable to meet their debt service obligations. LDCs have been hit hard by the lengthy industrial country economic recession and high real interest rates. Some oil exporters--Mexico, Venezuela, Nigeria, and Ecuador--face serious financial difficulties because of inability to adjust their profligate spending habits to the new oil market realities. The plight of others, especially Argentina, has been made worse by political instability and economic mismanagement. Under the best of circumstances, it will take many LDCs at least two years, and in the case of Mexico and Argentina probably longer, to regain a strong enough foreign financial position to allow sustained economic growth.

Events in Argentina and Mexico have transformed the debt problem from one that could be treated purely as reflecting deficiencies of policies and management in a few countries to one that involves the health of the entire international financial system and the performance of the world economy. Bankers are curtailing loans to countries like Brazil not just because their assessment of Brazil's domestic policies has turned negative, but also because they are extremely nervous about a high degree of exposure in the present world environment. They are carefully watching their exposure not only to problem countries, but to all of Latin America, and even to LDCs as a group.

The decline in the net inflow of bank lending, on top of a substantial drop in export earnings, is forcing LDCs to substantially curtail imports. The needed import cuts will be especially large in Mexico and Brazil, countries which have close trade links with the United States. LDC import cuts will be accompanied by reductions in incomes and economic activity, which will entail painful political decisions and conflicts. The economies of the industrial nations also will be adversely affected, as is already occurring in the United States as a result of the severe problems in Mexico.